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KEY HIGHLIGHTS

Update

Krung Thai Bank (KTB TB/HOLD/Bt15.80/Target: Bt16.40)

Expect 2Q22 earnings to drop qoq on higher credit costs. Downgrade to HOLD.

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KEY INDICES

Symbol	Close	Chg	%Chg
SET	1,632.62	(8.72)	(0.53)
SET50	987.61	(5.54)	(0.56)
Value (Btm) - SET	53,000		
Top 5 Sector			
BANK	378.33	(2.96)	(0.78)
PETRO	1,115.84	(10.39)	(0.92)
PROP	239.66	(2.94)	(1.21)
ENERG	25,485.99	(100.69)	(0.39)
ICT	193.26	(1.90)	(0.97)

Source: Bloomberg

TOP VOLUME

Symbol	Price (Bt)	Chg (%)	Volume ('000)
TOP	56.75	(6.58)	46,775.9
KBANK	149.50	0.00	14,753.9
PTTEP	173.00	(0.57)	10,154.2
PTT	37.50	(0.66)	39,593.3
KKP	67.00	(3.94)	22,034.7

TOP GAINERS

Symbol	Price (Bt)	Chg (%)	Volume ('000)
MATCH	2.40	29.73	15,080.2
NOVA	12.90	29.65	2,723.0
NFC	7.90	29.51	16,190.4
CPR	9.90	29.41	131,919.1
KWI	2.56	29.29	30,676.7

TOP LOSERS

Symbol	Price (Bt)	Chg (%)	Volume ('000)
TWZ	0.08	(11.11)	11,403.2
NINE	6.70	(10.67)	1,706.9
KC	0.42	(8.70)	35,836.6
JCK	0.56	(8.20)	70,982.7
ACC	1.60	(7.51)	29,037.5

KEY STATISTICS

Commodity	Current Price	%Chg		
		1m	3M	YTD
Brent crude*	119.7	9.1	15.6	59.0
Dubai crude*	123.3	22.1	2.8	61.2
Baltic Dry Index	2,320.0	(25.3)	(14.6)	4.6
Gold Spot***	1,875.6	3.5	(5.7)	2.5

*(US\$/bbl), *** (US\$/toz)

FOREIGN PORTFOLIO INVESTMENT IN EQUITIES (THAILAND)

Day (Mil US\$)	MTD Net (Mil US\$)	YTD Net (Mil US\$)	YTD Net YoY%
(111.2)	(269.3)	4,013.1	8,556.1

Source: Bloomberg

Foreign Exchange Rate - THB/US\$ (onshore) = 34.83

Interest Rate (%) - TH 1-day RP = 1.50

Thai Lending Rate (%)* - MLR = 5.25

COMPANY UPDATE

Krung Thai Bank (KTB TB)

Expect 2Q22 Earnings To Drop qoq On Higher Credit Costs; Downgrade To HOLD

We expect KTB to post a 2Q22 net profit of around Bt6.3b (-29% qoq, +4% yoy). On a qoq basis, the sharp decline in earnings should be mainly due to higher credit costs. Although we have upgraded KTB's 2022-24 earnings outlook by 0.8-5.0%, we believe KTB's current share price has limited upside gains. Downgrade to HOLD. Target price: Bt16.40.

2022 EARNINGS PREVIEW

Year to 31 Dec (Btm)	2Q22F	1Q22	2Q21	qoq chg (%)	yoy chg (%)
Total gross loans	2,695,841	2,679,341	2,502,774	0.6	7.7
Net interest income	21,215	21,086	20,916	0.6	1.4
Non-interest income	7,637	8,599	7,934	(11.2)	(3.8)
Loan loss provision	(8,219)	(5,470)	(8,097)	50.2	1.5
Non-Interest Expenses	(12,037)	(12,244)	(12,235)	(1.7)	(1.6)
Pre-provision operating profit	16,815	17,441	16,616	(3.6)	1.2
Net income	6,255	8,780	6,011	(28.8)	4.1
EPS (Bt)	0.45	0.63	0.43	(28.8)	4.1
Ratio (%)					
NPL Ratio	3.4	3.3	3.5		
Net interest margin (NIM %)	2.4	2.4	2.6		
Credit cost (bp)	121	82	133		
Cost to income (%)	42	41	42		
Common equity tier 1 (CET1) ratio (%)	15.1	15.4	15.0		

Source: KTB, UOB Kay Hian

RESULTS

• **2Q22 earnings to drop qoq dragged by higher credit costs.** We expect Krung Thai Bank (KTB) to post a 2Q22 net profit of around Bt6.3b, up 4% yoy but down 29% qoq. The qoq decline was mainly due to higher provision expenses. While KTB's loan portfolio is quite resilient against deterioration in asset quality, we believe the credit cost would increase 39bp qoq on the back of negative impacts from high inflation and low-base credit cost in 1Q22. We expect the NPL ratio to slightly increase by 10bp qoq to 3.4% and the loan loss coverage (LLC) ratio to remain within 160-170% in 2Q22.

• **Flat mom loan growth in April 22.** KTB posted a flat loan growth mom at 10.3% yoy for 4M22, supported by government and corporate lending. Deposits and borrowing declined 2.1% mom, leading to a higher loan-to-deposit and borrowings of 91% in Apr 22 vs 89% in Mar 22.

KEY FINANCIALS

Year to 31 Dec (Btm)	2020	2021	2022F	2023F	2024F
Net interest income	88,343	83,372	85,130	89,127	96,171
Non-interest income	33,905	32,414	32,664	35,178	38,506
Net profit (rep./act.)	16,732	21,588	25,641	26,021	28,911
Net profit (adj.)	16,732	21,588	25,641	26,021	28,911
EPS (Bt)	1.2	1.5	1.8	1.9	2.1
PE (x)	13.2	10.2	8.6	8.5	7.6
P/B (x)	0.6	0.6	0.6	0.6	0.5
Dividend yield (%)	4.8	1.7	3.0	3.6	4.7
Net int margin (%)	2.9	2.5	2.4	2.5	2.6
Cost/income (%)	43.7	45.5	44.4	44.8	44.9
Loan loss cover (%)	147.3	168.8	165.9	171.2	173.3
Consensus net profit	-	-	26,590	27,705	31,059
UOBKH/Consensus (x)	-	-	0.96	0.94	0.93

Source: Krung Thai Bank, Bloomberg, UOB Kay Hian

HOLD

(Downgraded)

Share Price	Bt15.80
Target Price	Bt16.40
Upside	+3.8%
(Previous TP)	Bt16.00

COMPANY DESCRIPTION

One of the largest commercial banks with roughly 15% share of the credit market. The bank has a strong focus on corporate lending, which accounts for 31% of its loan book.

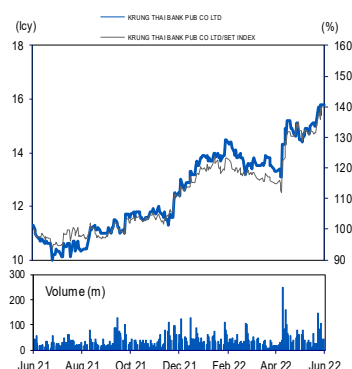
STOCK DATA

GICS sector	Financials			
Bloomberg ticker:	KTB TB			
Shares issued (m):	13,976.1			
Market cap (Btm):	220,821.8			
Market cap (US\$m):	6,404.7			
3-mth avg daily t'over (US\$m):	20.3			
Price Performance (%)				
52-week high/low	Bt15.80/Bt10.00			
1mth	3mth	6mth	1yr	YTD
8.2	17.0	27.4	41.1	19.7

Major Shareholders

FIDF (MOF)	55.1
NVDR	4.5
Nortrust Nominees	3.2
FY22 NAV/Share (Bt)	26.60
FY22 CAR Tier-1 (%)	14.28

PRICE CHART



Source: Bloomberg

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- NIM shrinkage from government lending.** Since the COVID-19 outbreak, the company has lowered its risk appetite and shifted its loan mix towards government lending. The proportion of government lending to total loans has increased from 7% in 1Q20 to 21% in 1Q22. Although the government loans help improve KTB's asset quality, the trade-off is shrinkage in NIM. As a result, we expect KTB's 2Q22 NIM to be 2.4%, flat qoq but down 15bp yoy.

STOCK IMPACT

- Excitement over digital lottery.** KTB's share price went up 4.7% on 6 Jun 22, resulting from the overwhelming feedback from digital lottery sales via KTB's application, Pao Tang. Pao Tang is the country's biggest financial services app, with around 40m users. News reported that all of the lottery tickets that were available for sale via Pao Tang (5.17m tickets) were sold off in five days. Pao Tang provides an online-claimed service, in which the winners will be charged a 1% fee. Based on the payout ratio of the Thai lottery of 60%, KTB would gain around Bt5m/month from online-claimed fees. The Government Lottery Office (GLO) will hold a meeting on 23 Jun 22 to discuss whether they should increase the quota of the digital lottery.
- Earlier rate hike than anticipated.** The Monetary Policy Committee (MPC) kept the central rate unchanged at 0.5% in the last meeting. However, the votes were unanimous, with three members out of seven members voting for a 25bp rate hike. Also, the MPC mentioned that the high level of the current accommodative monetary policy would be less necessary. To battle against higher-than-expected inflation, we believe the BOT will bring forward the first rate hike to 2H22 (previously: in 1Q23). The increase in the central rate would partially offset loan yield shrinkage from a higher loan mix in government loans in 2022 and will widen KTB's 2023 NIM by 10bp yoy.

EARNINGS REVISION/RISK

- We have revised our 2022-24 earnings forecasts up by 0.8-5.0% to account for a better NIM outlook as we believe the BOT will move forward with its rate hike sooner than our previous expectation.

NET PROFIT FORECASTS

	2022F	2023F	2024F
Old	25,429	25,037	27,526
New	25,641	26,021	28,911
% chg	+0.8	+3.9	+5.0

Source: UOB Kay Hian

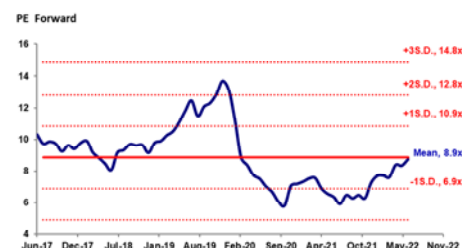
VALUATION/RECOMMENDATION

- Downgrade to HOLD.** The share price has reacted positively to strong digital lottery sales and the prospect of an earlier-than-anticipated rate hike from the BOT. Therefore, the current KTB share price provides limited upside gains compared with our 2022 target price. Downgrade to a HOLD recommendation with a higher target price of Bt16.40. Our target price is based on the Gordon Growth Model and implies a 0.6x 2022 P/B multiple, which is equivalent to its five-year P/B mean.

SHARE PRICE CATALYST

- Better-than-expected 2Q22 results

PE BAND



Source: KTB, UOB Kay Hian

P/B BAND



Source: KTB, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (Btm)	2021	2022F	2023F	2024F
Interest income	104,832	107,627	115,952	128,804
Interest expense	(21,460)	(22,496)	(26,825)	(32,633)
Net interest income	83,372	85,130	89,127	96,171
Fees & commissions	20,022	20,805	22,377	24,791
Other income	12,392	11,859	12,800	13,715
Non-interest income	32,414	32,664	35,178	38,506
Total income	115,786	117,794	124,305	134,677
Staff costs	(27,311)	(26,701)	(28,840)	(31,191)
Other operating expense	(25,420)	(25,619)	(26,853)	(29,337)
Pre-provision profit	63,055	65,474	68,612	74,149
Loan loss provision	(32,524)	(30,332)	(32,851)	(34,416)
Pre-tax profit	30,531	35,143	35,761	39,733
Tax	(5,975)	(6,952)	(7,152)	(7,947)
Minorities	(2,968)	(2,550)	(2,588)	(2,875)
Net profit	21,588	25,641	26,021	28,911
Net profit (adj.)	21,588	25,641	26,021	28,911

BALANCE SHEET

Year to 31 Dec (Btm)	2021	2022F	2023F	2024F
Cash with central bank	63,544	54,879	56,715	58,793
Govt treasury bills & securities	342,042	301,833	311,934	323,364
Interbank loans	469,216	521,348	538,794	558,537
Customer loans	2,476,220	2,557,566	2,641,120	2,737,804
Investment securities	18,039	41,159	42,536	44,095
Derivative receivables	52,660	86,953	90,445	94,378
Associates & JVs	21,975	16,228	16,228	16,228
Fixed assets (incl. prop.)	70,745	69,634	70,870	72,832
Other assets	42,303	60,655	62,032	63,591
Total assets	3,556,744	3,710,255	3,830,675	3,969,622
Interbank deposits	296,344	274,394	283,576	293,967
Customer deposits	2,614,747	2,771,376	2,864,117	2,969,068
Derivative payables	50,550	82,318	85,073	88,190
Debt equivalents	133,817	105,310	99,411	97,276
Other liabilities	87,174	89,637	91,657	93,943
Total liabilities	3,182,633	3,323,035	3,423,834	3,542,444
Shareholders' funds	360,053	371,724	389,738	408,285
Minority interest - accumulated	14,059	15,495	17,103	18,893
Total equity & liabilities	3,556,744	3,710,254	3,830,675	3,969,622

OPERATING RATIOS

Year to 31 Dec (%)	2021	2022F	2023F	2024F
Capital Adequacy				
Tier-1 CAR	16.5	14.3	13.9	13.7
Total CAR	19.9	17.3	16.7	16.5
Total assets/equity (x)	9.9	10.0	9.8	9.7
Tangible assets/tangible common equity (x)	10.3	10.4	10.2	10.1
Asset Quality				
NPL ratio	3.5	3.5	3.5	3.5
Loan loss coverage	168.8	165.9	171.2	173.3
Loan loss reserve/gross loans	6.5	6.8	6.9	6.9
Increase in NPLs	1.8	6.9	1.2	2.4
Credit cost (bp)	130.1	112.5	117.8	119.2
Liquidity				
Loan/deposit ratio	94.7	92.3	92.2	92.2
Liquid assets/short-term liabilities	30.0	28.8	28.8	28.8
Liquid assets/total assets	24.6	23.7	23.7	23.7

KEY METRICS

Year to 31 Dec (%)	2021	2022F	2023F	2024F
Growth				
Net interest income, yoy chg	(5.6)	2.1	4.7	7.9
Fees & commissions, yoy chg	(2.5)	3.9	7.6	10.8
Pre-provision profit, yoy chg	(8.3)	3.8	4.8	8.1
Net profit, yoy chg	29.0	18.8	1.5	11.1
Net profit (adj.), yoy chg	29.0	18.8	1.5	11.1
Customer loans, yoy chg	12.5	3.3	3.3	3.7
Profitability				
Net interest margin	2.5	2.4	2.5	2.6
Cost/income ratio	45.5	44.4	44.8	44.9
Adjusted ROA	0.6	0.7	0.7	0.7
Reported ROE	6.1	7.0	6.8	7.2
Adjusted ROE	6.1	7.0	6.8	7.2
Valuation				
P/BV (x)	0.6	0.6	0.6	0.5
P/NTA (x)	0.6	0.6	0.6	0.6
Adjusted P/E (x)	10.2	8.6	8.5	7.6
Dividend Yield	1.7	3.0	3.6	4.7
Payout ratio	17.8	25.9	30.8	35.8

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